



CITY OF LAREDO

Budget Department

October 1, 2003

Honorable Mayor Elizabeth G. Flores and Members of the City Council:

More than just a window of opportunity, Laredo is the front door to the rest of the world!

Laredo has consistently remained as one of the fastest growing cities in both the nation and the state for the past several years, despite some of the less favorable economic conditions that the city has been faced with. This phenomenal growth has impacted our economy tremendously. The City continues to experience an increasing demand for infrastructure development and municipal services in many areas.

Our goal is to provide a revenue base that will sustain the current economic conditions. The budget process mandates a critical analysis of City Council's goals as they relate to the allocation of financial resources.

In accordance with the local and state law, we are pleased to present for your consideration the Annual Operating Budget for the fiscal year October 1, 2003 through September 30, 2004. This document represents an overall plan for the City and was developed to offer a program of expenditures consistent with the growing needs of our community.

POLICY STATEMENTS AND GOALS

In June 2002, City Council held a strategic planning session in order to revisit and develop policy statements and one to five year goals. The budget process incorporates these goals into action and critically evaluates the effectiveness of existing programs to assess resource allocation and ensure successful accomplishment. The following goals demonstrate the Councils' commitment to the development of the City during this period of economic fluctuation.

PUBLIC SAFETY

As you know that since the events of September 11, 2001, homeland security is an issue that is uppermost on federal, state and local agenda. Local expenditures have increased in order to assure the public's safety. The Police and Fire departments strength increased by 59

police officers and 73 firefighters, respectively, in the last five years. The 2002-2003 fiscal year budget included the addition of twenty-four (24) firefighter cadets to be located at the Cielito Lindo fire station, which is estimated to be completed by May of 2004.

In May 2002, Phase I of the Laredo International Fire & Law Enforcement Training Facility was inaugurated, which includes the administration building, burn house, drill tower, Haz-Mat facility, Fire Extinguisher training area, and classrooms at a cost of \$5,200,000. An established training curriculum will be used to instruct cadets at local, state and national levels. In fact, the Laredo Fire Department has partnered with the Laredo Community College in order to provide lecture and laboratory instructional services at the training facility. In addition, the Convention & Visitors Bureau (CVB), along with the Fire Department, continues to promote the availability of the center to provide instruction and training to local, state and federal, as well as, international agencies.

Phase II of the Laredo International Fire & Law Enforcement Training Facility commenced in June 2002, which includes a mock aircraft prop, and an Emergency Vehicle Operators Course (EVOC). Funding in the amount of \$700,000 from the Laredo Police Department, Police Trust Fund was acquired for the EVOC. In addition, Phase III of the Laredo International Fire & Law Enforcement Training Facility includes an Aircraft Rescue Fire Fighting (ARFF) Pit at a cost of \$1,500,000.

It is City Council's goal to continue to develop the city's community-oriented-policing services (COPS) philosophy by redefining, thereby reestablishing a new five-year strategic plan designed to enhance our Community Policing Services (COPS) strategy, thus creating a well-planned, orderly funding method of the city's COPS workstation program. The City currently has thirteen (13) workstations in operation within fifteen precincts. Each substation has approximately 10 to 13 police officers including a sergeant at a cost of approximately \$500,000. On November 18, 2002, City Council accepted a grant awarded by the United States Department of Justice, Cops in Schools Program for the addition of ten (10) School Resource Officers. In addition, City Council accepted another grant awarded by the United States Department of Justice, COPS Program for the addition of fifteen Patrol Officer Cadets to the Police force.

In addition to the significant amount of grant funding acquired by the Laredo Police Department (LPD), several strides have been made in the area of acquiring technologically advanced equipment. On March 11, 2002, LPD procured the Ballistic Engineered Armored Response (BEAR) Tactical Armored Vehicle at a cost of \$170,000, which helps the expert Special Weapons And Tactics (SWAT) team in a variety of rescues, forced entries, and other precision command tasks. On August 5, 2002, LPD added a Mobile Command Center to its arsenal at a cost of \$360,000. This high tech mobile command center includes monitoring equipment, various individual communication stations, and is capable of serving as a mobile emergency operations center. All of this much-needed equipment has been purchased with the proceeds from asset forfeitures that are accounted for in the Police Trust Fund.

DOWNTOWN/RIVERFRONT REVITALIZATION

Laredo's downtown is an area that boasts having key components of Laredo's past, and is fast transforming into a major force for Laredo's future. A strategic planning goal is to develop structure and staffing to insure that the downtown and riverfront revitalization achieves initial and continued success. It can only reach its full potential by providing recreational and ecologically sound amenities that address quality of life issues while simultaneously enhancing the downtown area as an economic driver through tourism and consumer interest amenities. The El Portal project will serve as a major mechanism in achieving the goal of revitalizing the downtown and riverfront area. The El Portal project encompasses the construction of a rural riverside road, recreational parks, hike and bike trails and other amenities. This project is designed to enhance and protect the scenic, historic, cultural, natural and archeological treasures of Laredo, promote tourism, and stimulate downtown revitalization.

Another objective of the El Portal project is to develop recreational green space along the city's riverbank, drawing people back to the most precious of natural resources responsible for Laredo's and Nuevo Laredo's founding.

In addition, construction will soon begin on the Bridge of the Americas Entrance Redesign Project, which will complement the revitalization of the riverfront perfectly and promote commercial growth. The Bridge of the Americas Entrance Redesign project is a \$15 million dollar bond undertaking that involves the creation of a defined "gateway" area that will provide enhanced easy access for pedestrians and vehicular traffic, generate a river promenade and introduce a series of public plazas to the section.

DIVERSIFICATION OF THE ECONOMY

Economic development is a vital tool for growth management. City Council through staff continues to work closely with the Laredo Development Foundation (LDF) in the development of policies to attract businesses to Laredo. The Laredo Development Foundation continues to work with various companies who have shown interest in establishing new restaurants, hotels, retail outlets and service industries in Laredo that would provide new value added jobs.

The City offers a tax abatement program for new businesses. Although it has had a minimal impact on tax revenues, thus far, the City continues to provide an incentive for business expansion. Qualified businesses are eligible to reduce up to 100% for up to five years of taxable value in lieu of new jobs created. In fiscal year 2002-2003, City Council approved tax abatements for Doctor's Hospital and Lack's Furniture Store. The City is currently considering several applications for tax year 2004.

A huge stride in diversifying the economy has been the opening of the highly anticipated Laredo Entertainment Center (LEC) in October of 2002. The 178,000 square foot facility has a fixed seating capacity of 8,000 seats and an additional 2,000 portable seats. This multi-use

facility houses the Laredo Bucks hockey team which is an expansion of the Central Hockey League (CHL). Since its grand opening, the *House that Laredo Built* has hosted a variety of concerts, high school graduations, other sporting events, ice shows, and trade shows, just to name a few. It now holds the newest distinction of being the host venue for the Miss Texas USA pageant through 2008. City staff continues to work with the LEC personnel to promote the facility in Monterrey and other markets. Attracting visitors from other cities would provide additional opportunities for our local businesses.

SUSTAINABLE / CLEAN CITY

The development of an innovative beautification program that stimulates community pride is another goal of the clean cities program envisioned by the Mayor and City Council. On February 18, 2003, the Adopt-A-Park program was approved by City Council in an effort to continue the beautification of the city. The Adopt-A-Park program was implemented in 1999 and reintroduced in 2003 in an effort to pursue public-private collaborations in order to serve the community at large. This program includes beautification projects, clean up efforts and may also include the addition of recreational equipment to an adopted park site or a sponsored play day at the park. All of these activities will encourage the community to utilize the city's park facilities, as well as, take pride in them.

This portion of the plan can only become reality when the public takes ownership of their own fallacies and stop littering. The 2002 Leadership Development Class has developed a draft of a litter abatement and beautification plan that is currently under my review. This is one facet of developing a sustainable community that regenerates itself. Another important component for the development of Laredo is securing a secondary source of water.

A critical resource needed to ensure Laredo's growth is the enhancement of potable water quantities for the city. The City of Laredo is in the process of fulfilling its obligations to supply treated potable drinking water to its water customers using raw water from the Rio Grande River as its only water source. The City has proposed that a separate secondary source of water be obtained to ensure the continued availability of water for its citizens and to support regional economic development.

The City will acquire through purchase, lease or otherwise, sufficient reliable and dependable rights to capture, through pumping, amounts of groundwater to supply and meet the City's treated water requirements in the daily and seasonal volumes as predicted for twenty years.

The expansion of the groundwater infrastructure will require a capital investment, which will be paid by impact fees, privatization savings, and/or issuance of bonds.

Impact fees are charged to developers for total or partial defrayal of projects. The ordinance designed to facilitate and encourage private investment into infrastructure projects will be prepared as part of the impact fees project.

SOCIAL INFRASTRUCTURE

The Inner City Park facility and recreational area is just one example of an on-going project that will bring a portion of the vision in the strategic plan to fruition. This goal encompasses improving indoor recreational facilities and expanding on multi-purpose centers by adding new and leveraging existing facilities through inter-local partnerships. This facility will be the second of its kind in the nation to offer technology-aided recreation. The center will include computers, cameras and musical synthesizers available to all children, along with a variety of programs to enhance the technology and educational theme of "learning while having fun." Outdoors, there will be a climbing wall and play area along with picnic tables. Adjacent to the center will be an Olympic sized swimming pool that is heated and covered, a walking trail, as well as a park and play area round out this multi-million dollar complex, which is expected to be completed in December of 2003.

INLAND PORT

As a community and border leader, Laredo stands on the edge of two nations like a door stands between two worlds. Laredo is America's front door to trade as a Gateway to Mexico and beyond. Laredo continues to be an unparalleled hub of international prominence by providing whatever the tools and resources necessary to ensure its advancement.

The City of Laredo is moving forward with their fifth international bridge application. The Texas Department of Transportation (TXDOT) states the environmental assessment by the City of Laredo for the bridge application is technically complete. This step now allows the City to submit a completed application for review to TXDOT, in anticipation of approval by the State Transportation Commission. The entire application will consist of the environmental assessment and various other preliminary studies, coupled with documents required by both the state and federal government. The process of review by the State of Texas is limited to a specific timeframe. Once the Transportation Commission approves the application, the next step is submission for a Presidential permit, under U.S. Code Title 35, to the U. S. State Department.

The City continues to be an active participant of the North American International Trade Corridor Partnership, Texas Border Infrastructure Coalition, Border Trade Alliance, Texas Municipal League, National League of Cities, U. S. Conference of Mayors, Texas City Management Association, and the International City Management Association. In addition, the proposed fiscal year 03-04 budget includes \$292,000 for legislative support services to federal and state consultants. The City will continue its active involvement in all government areas to better serve the citizens of Laredo.

GOVERNMENT SERVICES

The City of Laredo financial advisors and bond counsel have always recommended that a 15% fund balance be maintained in the General Fund in order to hedge against economic fluctuations. The FY2002-03 General Fund balance is estimated to be 15.61%, while the FY2003-04 is projected to be 15.00%.

Adherence to the fund balance policy is critical to bond-rating agencies as they expect the City of Laredo to retain healthy fund balances. The bond ratings directly affect the cost of debt. Currently Fitch IBCA, the International Rating Agency, rates the City of Laredo's General Obligation bonds, the Bridge System bonds, and the Water and Sewer bonds with an "A+". Standard & Poors (S & P) rates the City's General Obligation Bonds at an "A". Recently, S & P upgraded the Bridge System Bonds to an "A+". Moody's Investor Service rates the General Obligation bonds and Certificates of Obligations at an "A2".

It is the City's goal to attract highly qualified and skilled employees through a competitive salary and benefits package. The fiscal year 2003-04 proposed budget includes a 1.6% cost of living adjustment on October 1, 2003 and merit pay based on favorable annual performance evaluations.

The City offers employees thirteen paid holidays now with the addition of a personal holiday, a sick and annual leave program, and a Tuition Reimbursement Program which allows employees to pursue higher learning and increase their value to the organization. During the recent LPOA contract negotiations, it was agreed that the City would update the employee contribution of 5% to 7%, with the City matching the employees' contribution at 2 to 1.

Sick leave buy back options and a serious illness pool benefit allow employees to have additional benefits to overcome disabling illnesses or injuries and allow employees to benefit from minimizing their time off due to sick leave absences. Every year the city reviews benefit enhancement opportunities to ensure that the city can attract and maintain a competitive work force.

The City has also been aggressive in continuing with the Employee Wellness Program. This year three health fairs were held throughout various departments in the City, one of which is held during the annual mandatory open enrollment for benefits in August. The City continues to foster quality leadership in its employees through the Leadership Development Program. Since its inception in March 1997, the program has graduated approximately 79 employees. On September 3, 2002, the City Council authorized the execution of a letter of agreement between the City of Laredo and South West Texas State University's William P. Hobby Center for Public Service to offer the Nationally Accredited Certified Public Manager (CPM) Program on site at the City of Laredo Training Facilities. The goal of the CPM Program is continued development of Departmental employees' skills in order to better serve the City and the citizens of Laredo.

The City is committed to providing a quality customer service program. Staff continuously strives to improve and evaluate existing programs, organizational structures, and cost reduction alternatives to ensure that the City offers the best quality service.

In addition, the City continues to improve the quality and efficiency of community services through excellent customer service, anticipation of services requested by citizens, visitors, employees, and by providing a positive and friendly attitude. Staff monitors all customer service requests through a software system entitled the Track Wise Program.

REVENUES & EXPENDITURES FOR MAJOR FUNDS

GENERAL FUND

Revenues

The City's General Fund continues to be challenged by the demand for more city services and infrastructure. The recent annexations of land and population growth require more police and fire protection, garbage pickup, and larger facilities to best service our citizens. The current year, FY 2002-03, tax rate is \$0.630534 per \$100 assessed valuation. The FY 2003-04 property values saw an increase of 7.9% over the estimated FY2002-03 valuations. The Webb County Appraisal District certified valuations for FY 03-04 at \$5,992,130,874, with an effective tax rate of \$0.641761. The increase in valuation is due to projected new improvements and annexations.

A few major revenue streams within the General Fund have experienced fluctuations during FY 2002-03. During FY 02-03, sales tax revenue has stayed in line with the growth that was projected for it. Sales tax revenue is estimated to come in at \$18,067,525, which translates into \$59,842 or .33% over budgeted sales tax revenue. FY 2003-04 projects sales tax revenue of \$19,056,353, which is a \$907,446 or 5% increase over estimates.

The General Fund receives funding from the Bridge Fund in the amount of fifty percent (50%) of Bridge Toll receipts. The General Fund estimates a revenue budget shortfall of \$710,994 from the transfer in from the Bridge Fund due to the continued state of heightened security at all bridge crossings after September 11, 2001. The FY 2003-04 budget reflects a transfer in from the Bridge Fund of \$16,874,155, which translates into a \$602,067, or 3.7% increase over estimates.

The largest revenue shortfall estimated in the General Fund is that of Electric Franchise Fee revenue. FY 02-03 estimates a revenue shortfall of \$1,647,677, or 29% due to the effects of deregulation. The FY 2003-04 budget anticipates an upswing in Electric Franchise Fees with projected revenue of \$4,610,595, which is a \$566,640, or 14% increase over estimates.

Estimated revenues for FY2002-03 are \$89,477,382 which represents an increase of \$6,460,198 or 8.1% over FY2001-02, excluding non-recurring revenues. The proposed FY2003-04 budget projects revenues of \$93,528,431. The projected increase in revenues is \$7,912,059 or 9.4% over estimated FY2002-03, again, excluding non-recurring revenues.

Expenditures

The largest expenditure increase pertained to the TMRS Pension increases that took effect this current fiscal year. It is projected that in the General Fund, TMRS Pension accounts for a \$1,760,404, or 57.8% increase over the pension amounts budgeted for in FY 2002-03. The two (2) percent increase to the pension was attributable to the approval of the pension increases during the collective bargaining contract negotiations with the Laredo Police Officers' Association.

The FY 2003-04 proposed budget includes a 1.6% cost of living to all other city employees (except Fire and Police) and an average of 3% for merit increases, which translates to an increase of \$526,755.

Other contractual appropriations in the proposed budget included Police salary increases of \$632,404, or a 4% increase, and Fire salary increases of \$765,446, or a 4.75% increase.

Some steps were taken to reduce the impact of the aforementioned expenditure increases. For instance, operational expenditures were reduced by 5% in the proposed budget, which translates into a \$600,641 savings. In addition, thirty-three and a half (33.5) vacancies in the General Fund were frozen for the FY 2003-04, which comes to a \$778,502 expenditure savings.

Estimated expenditures for FY2002-03 are \$80,239,968 which represents an increase of \$4,247,580 or 5.6% over FY2001-02, excluding one-time expenditures. The proposed FY2003-04 budget projects expenditures of \$87,912,319. The projected increase in expenditures is \$7,672,351 or 9.6% over estimated FY2002-03.

HOTEL-MOTEL FUND

Essential to the City's continued progress is the promotion of attractions and events unique to Laredo and its binational lure.

The Hotel-Motel Fund provides funding to the Convention and Visitors Bureau, various third party agencies that promote tourism, as well as, promote the historical aspects of Laredo. In addition, the General Fund receives funding for City Promotion and the Civic Center receives funding for operations, debt service, and CIP projects. The Public Access Channel receives funding from Hotel-Motel for the promotional programming of the city that is produced and aired on our local public access channel.

Hotel-Motel Occupancy Tax revenues for fiscal year 2003-04 are projected to meet \$2,529,314 which represents an increase of \$97,282 or 4% over fiscal year 02-03 estimated occupancy tax revenue. The projected increase is attributable to the upcoming opening of the Fairfield Inn that is currently being constructed. The proposed fiscal year 2003-04 budget

projects total revenues of \$2,619,221. The increase in total revenues equals \$86,219 or 3% over estimated fiscal year 2002-03 revenues.

The proposed fiscal year 2003-04 budget includes an increase of \$361,699 or 22.6% more than the estimated fiscal year 2002-03 for Convention & Visitors Bureau (CVB), for the continued promotion of the various airlines located at the Laredo International Airport. In addition, funding was budgeted in the CVB operating budget in order to host the "Miss Texas USA" pageant. Appropriations can be found in the CVB budget for one coordinator for Laredo's 250th Anniversary Celebration and for the continued promotion of the Laredo International Fire & Law Enforcement Training Facility.

PARKING METERS FUND

The mission of the Parking Meters Fund is to facilitate and improve parking availability by maintaining and properly enforcing parking regulations in the Central Business District. Parking meter collections revenue for fiscal year 2003 reflects a \$151,415, or 34% increase compared to fiscal year 2003 projections. In addition, fiscal year 2003 parking lot facilities revenue is estimated to be at \$518,364, which translates into a \$218,364, or 73% increase over fiscal year 2003 projections.

Estimated total expenditures for fiscal year 02-03 reflect \$1,209,268, which translates into a \$346,474, or a 40% increase over fiscal year 2002 actual total expenditures. In 2002, new debt was issued in the Parking Meters Fund in the amount of \$1,025,000 for the purchase of additional land for parking facilities in the downtown area which helps stimulate downtown revitalization.

GENERAL OBLIGATION DEBT SERVICE

During fiscal year 2002-03, the City issued new debt in the amount of \$9,925,000 for various projects including \$2,795,000 for the purchase of equipment for various City departments, \$3,510,000 to fund the Zacate Creek Upper Pilot project, Laredo Street Drainage project, McPherson Acres Drainage project, the Chacon Creek Tributary project and the South Laredo Fire Station, and finally, \$3,620,000 in Sewer Bond Revenue to fund the Zacate Creek Waste Water Treatment Plant Corrosion Control, Bridge I Lift Station and New Line Connections.

BRIDGE FUND

Estimated toll receipt revenues for fiscal year 2002-03 are \$32,311,834 which represents an increase of \$948,533 or 3% over fiscal year 2001-02 actual toll receipt revenue collected. However, staff estimates a revenue budget shortfall of approximately \$1,955,529 in fiscal year 2002-03 compared to fiscal year 02-03 projections due to the continued state of heightened security at all bridge crossings after September 11, 2001, which has subsequently caused a decline in projected southbound commercial and non-commercial traffic. The proposed fiscal year 2003-04 budget projects toll receipt revenues of

\$33,507,372. The increase in revenues is \$1,195,538 or 3.7% over estimated fiscal year 2002-03.

Estimated expenditures for fiscal year 2002-03 are \$32,414,480. Estimated total expenditures are expected to fall below budgeted expenditures by \$2,369,432 or 6.8%, as a contingency plan to cut back expenditures due to the shortfall in projected revenues. The proposed fiscal year 2003-04 budget projects expenditures of \$33,529,378. The increase in expenditures is \$1,114,898 or 3.4% over estimated fiscal year 2002-03.

CLOSING COMMENTS

Laredoans can all be proud of the fact that a recent study released by a prominent think tank, the Milken Institute, listed this community as the top performing City in the state and seventh in the nation. This is no mere coincidence. The current Mayor and City Council, as well as past and present administration teams and the private sector, have all contributed to the many factors that helped our fair City rank as it did. It is a title that Laredo relishes and deserves. I truly believe that the measures and strides made over decades of progressive leadership, particularly in the past few years, and those to come, that you will see in this budget, will keep us on a path of prosperity. Our future is one that others envy and want to join and my commitment to you is that this community's success will be an inexorable juggernaut.

I am proud to present a surplus budget that was the culmination of a tremendous effort on the part of all City departments. I would like to call particular attention to the dedication, commitment, and the long hours of hard work by the Budget Department, as well as, the Financial Services Department.

I would like to thank all City employees dedicated to providing quality municipal services to our citizens, and who are committed to the success of our City as we strive to keep pace with the tremendous expansion of our community.

Sincerely,

A handwritten signature in cursive script, reading "Larry Dovalina".

Larry Dovalina
City Manager